

Bear Necessities

Michael Painchaud, a self-professed pessimist, has a unique system of evaluations for determining stock picks

When Michael Painchaud appeared on the Fox News Network on Oct. 8, 2002, he was dressed for a funeral. In a carefully selected black turtleneck and suit he pronounced on national TV in the midst of a painful recession: "We are celebrating the death of the bear market." He just so happened to be right; two days later the Dow began an upward climb.

It is with that same conviction that Painchaud of Market Profile Theorems today insists the markets are headed in the opposite direction. Pegging the Dow at 10,200 and NASDAQ at 1,767 by yearend 2007, Painchaud claims the title of the most bearish of this year's *BusinessWeek* forecasters on both indices.

The evidence is in the data he says. All the signs of a peak in a normal business cycle have surfaced: slowing growth in gross domestic product, an inverted yield curve, an overheated housing industry, weakness in the automobile sector, and rising global inflation. To top it off, interest rate changes are up in the air as the Fed will be forced to dance the delicate tango between a weak economy and consistent inflation.

Watching the Insiders "I hate doing this, I'd much rather be the optimist," he says. "But it was just as difficult in 2002 to convince someone to be a buyer in the equity market as it is today to convince someone to be a seller."

Painchaud and his colleagues at Market Profile Theorems evaluate two significant gauges of market behavior. They assess the attitude of corporate insiders by calculating the average percentage of insider sales of total insider trades across a range of companies. A profusion of aggregate insider sales (or lack thereof) is indicative of future market direction because insiders are typically a few steps ahead of the game.

Meanwhile, the average discrepancy between actual company results and analyst estimates indicates performance levels that are above or below expectations. The combination of a bearish attitude among corporate insiders and the recent failure of companies to convincingly beat analyst estimates points to a coming decline in the equities markets, Painchaud warns.

The Michigan State graduate majored in biology and statistics, but was drawn to the equity market when he realized monitoring market indices was a whole lot more exciting and unpredictable than monitoring acidotic curves. By 1989 he had co-founded Market Profile Theorems and developed his unique system of combined financial models to determine stock picks.